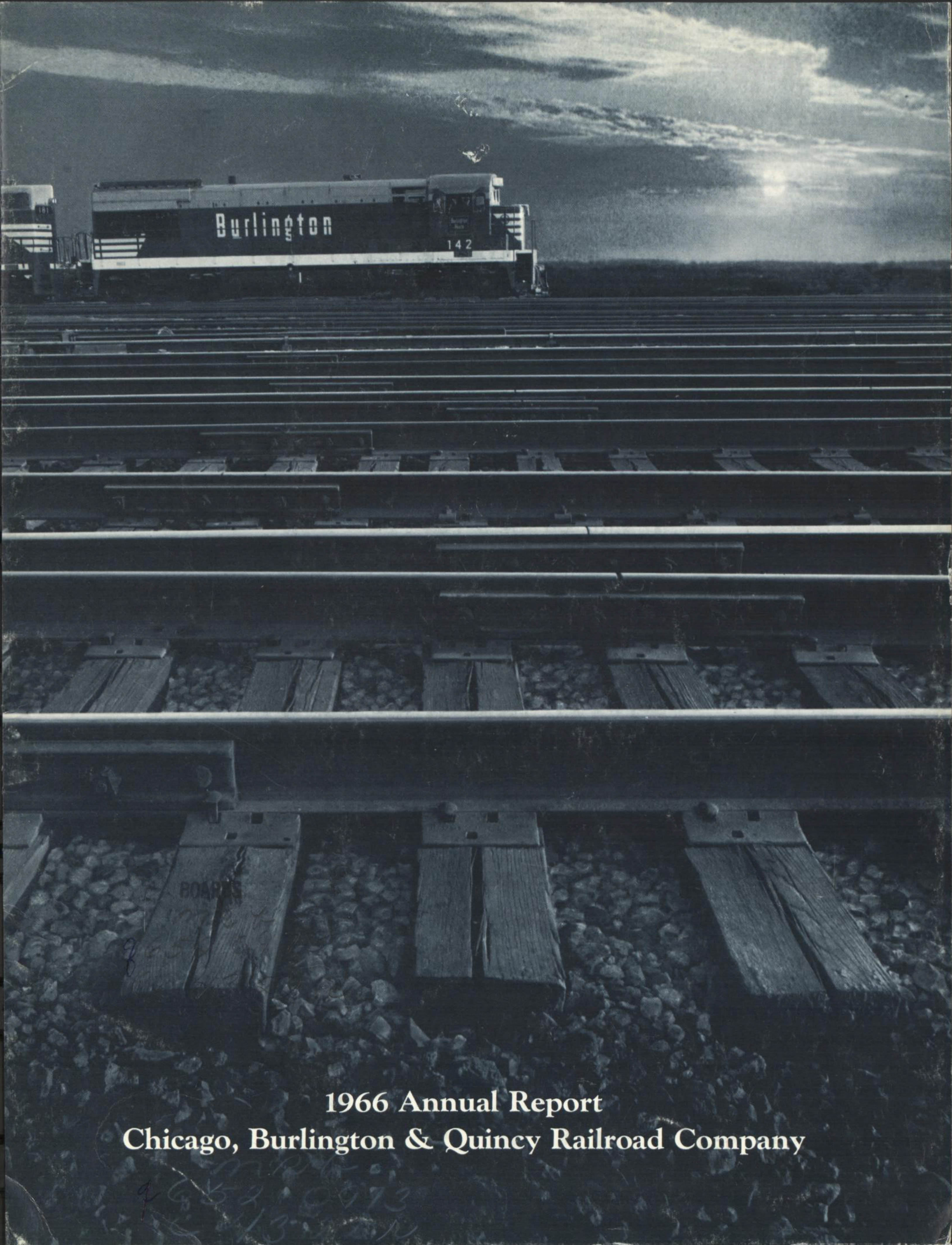
Burlington
142
BOARDS

1966 Annual Report
Chicago, Burlington & Quincy Railroad Company

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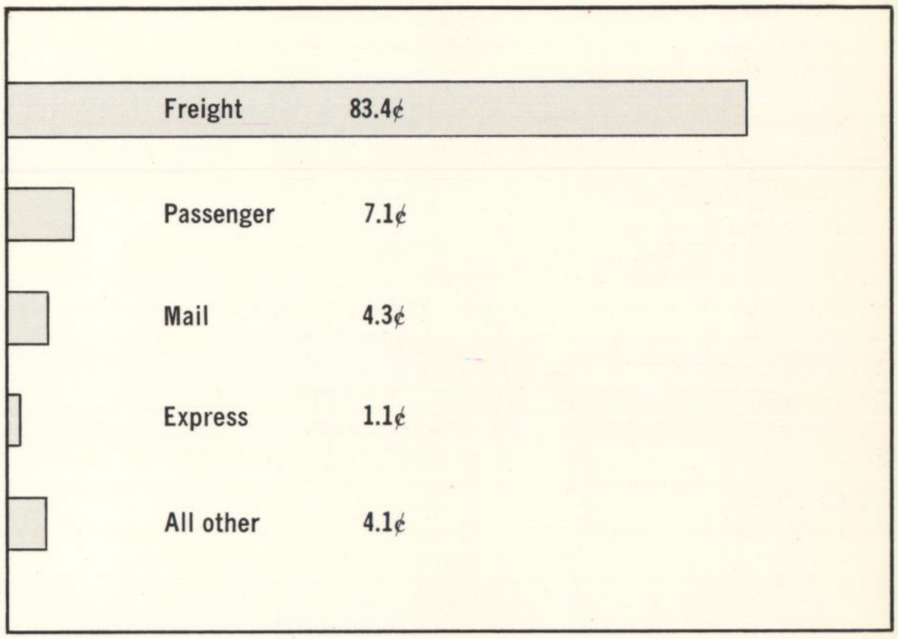
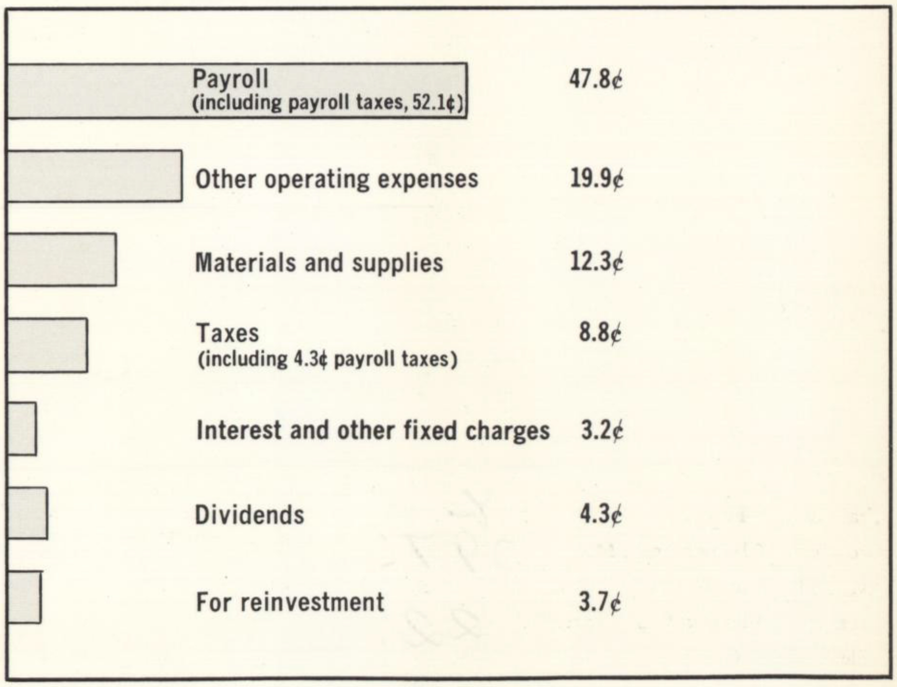
Sources of the 1966 Income Dollar



Disposition of the 1966 Income Dollar



Principal Office
BURLINGTON BUILDING
547 WEST JACKSON BOULEVARD
CHICAGO, ILL. 60606

A SUPPLEMENTARY REPORT CONTAINING ADDITIONAL OPERATING AND FINANCIAL STATISTICS MAY BE OBTAINED UPON REQUEST TO THE SECRETARY OF THE COMPANY AT 547 WEST JACKSON BOULEVARD, CHICAGO ILLINOIS, 60606.

MAY 1 0 1967 Co

Highlights

	1966	*1965*	**Increase or** *Decrease*
****Consolidated Operations***			
Operating Revenues	$347,011,232	$325,477,848	**$ 21,533,384**
Operating Expenses	$273,298,081	$266,546,441	**$ 6,751,640**
Taxes—Other Than Income	$ 24,707,815	$ 25,775,079	$ *1,067,264*
Income Taxes	$ 5,500,000	$ 1,400,000	**$ 4,100,000**
Available for Fixed Charges	$ 41,849,748	$ 27,705,428	**$ 14,144,320**
Fixed Charges	$ 10,742,782	$ 9,514,680	**$ 1,228,102**
Net Income (Page 14)	$ 25,082,397	$ 16,382,720	**$ 8,699,677**
C. B. & Q. R. R. Co. Operations			
Operating Revenues	$289,622,347	$270,453,376	**$ 19,168,971**
Operating Expenses	$227,622,927	$221,833,005	**$ 5,789,922**
Operating Ratio	78.59	82.02	*3.43*
Total Taxes (Page 10)	$ 25,738,844	$ 23,014,428	**$ 2,724,416**
Available for Fixed Charges	$ 33,366,874	$ 24,992,314	**$ 8,374,560**
Fixed Charges	$ 9,556,282	$ 8,299,224	**$ 1,257,058**
Times Fixed Charges Earned	3.49	3.01	**.48**
Net Income—ICC Basis (Page 18)	$ 23,810,592	$ 16,693,090	**$ 7,117,502**
Dividends Paid	$ 12,812,902	$ 12,812,902	—
Averages per Share of Stock:			
Taxes	$ 14.33	$ 13.47	**$ .86**
Net Income—ICC Basis	$ 13.94	$ 9.77	**$ 4.17**
Dividends Paid	$ 7.50	$ 7.50	$ —
Average Number of Employes	18,969	20,107	*1,138*
Total Wages	$136,979,693	$139,527,624	$ *2,547,931*
Tons—Revenue Freight	61,693,743	56,002,116	**5,691,627**
Ton Miles—Rev. Frt. (000)	20,500,600	18,837,596	**1,663,004**
Avg. Rev. per Ton Mile—Rev. Frt.	$ .01178	$ .01179	$ *.00001*
Gross Ton Miles (000)	20,830,781	19,226,350	**1,604,431**
Train Miles—Freight	12,728,522	12,132,395	**596,127**
Gross Ton Miles per Train Mile	1,636.54	1,584.71	**51.83**
Avg. Miles Hauled—Rev. Frt.	332.29	336.37	*4.08*
Gross Ton Miles per Train Hour	72,605	75,086	*2,481*
Miles of Road Operated	8,556.77	8,545.12	**11.65**
Passengers Carried—Revenue	10,981,863	10,583,141	**398,722**
Passenger Miles—Revenue	834,498,591	815,715,302	**18,783,289**
Avg. Miles Carried	75.99	77.08	*1.09*
Avg. Pass. Miles per Car Mile	21.84	21.68	**.16**
Train Miles—Passenger	7,811,297	7,923,502	*112,205*

*Including subsidiary companies listed on page 21.

The One Hundred Thirteenth Annual Report of the Chicago, Burlington & Quincy Railroad Company

To Our Shareholders:

The consolidated financial statements appearing for the first time in this report are for the Burlington, its railroad subsidiaries, The Colorado and Southern Railway Company (including Fort Worth and Denver Railway Company), Missouri and Illinois Bridge and Belt Railroad Company, Winona Bridge Railway Company, and non-railroad subsidiaries, Burlington Equipment Company, Burlington Refrigerator Express Company, Burlington Truck Lines, Inc., and St. Louis and Kansas City Land Company. The decision to publish consolidated statements was based upon the recommendation of the company's outside auditing firm, Price Waterhouse & Co., and the desire to provide a more complete report of the breadth and scope of company activities.

Consolidated operating revenues of $347,011,232 increased $21,533,384 over the results of the previous year. Consolidated net income of $25,082,397 compares with $16,382,720 for the year 1965.

For the Burlington alone, operating revenues rose to $289,622,347, an increase of $19,168,971 over 1965 revenues of $270,453,376. Burlington's net income was $23,810,592, an increase of 42.64% over the 1965 figure of $16,693,090.

The year 1966 was one of the most significant in Burlington's history. New tonnage and revenue records were set, and substantial progress was made as many programs, some long established and some recently inaugurated, combined to produce the year's favorable results.

The nation's expanding economy, large movements of grain, a substantial increase in piggyback traffic, and continued efforts toward better management of freight car supply helped to produce 20.5 billion ton miles of revenue freight, 1.7 billion more than in 1965. By handling fast, turn-around shuttle movements of grain between producing areas and terminal centers, and by pressing into such service open top hopper cars, the company's grain loadings and revenues were greatly enhanced.

On September 30, 1966, Louis W. Menk, who had been president of the Burlington since the previous October 1, resigned to become president of the Northern Pacific Railway. Under his direction a number of progressive moves were undertaken that will add greatly to the well being of the Company. Although his resignation was felt keenly by officers and employees alike, their enthusiasm, so well enkindled by him, for the task of continually upgrading the railroad has not diminished.

Officers and directors look forward hopefully to a favorable decision by the Interstate Commerce Commission in 1967 on the Company's application to merge with Great Northern and Northern Pacific railways. Such action is essential to continued health and growth and offers the Company and its employees a bright future of unbounded potential.

Officers and employees were offered every opportunity to develop their capabilities and acquire further skills, necessary as railroading becomes technologically advanced, through a tuition refund plan.

A training department was established within the Company, offering courses in theory of management and human relations for supervisors at all levels.

A new market research department, under the jurisdiction of the vice president-traffic, began in-depth studies of traffic profitability and shipper needs. The traffic department recruited and appointed specialists knowledgeable in the needs and problems of the more important industries whose traffic is handled.

To monitor performance, a quality control section was formed to help improve freight car utilization and freight train operations.

The industrial development department was expanded, and its efforts were assisted by special advertising aimed at attracting industry to the area served by the railroad and at exploiting to the fullest extent possible the transportation services offered.

A management information department was established to expand the use of data processing and to improve systems and procedures.

The efforts of the Burlington in the areas related, among others, gained public recognition. The Company was the winner of the 1966 Golden Freight Car award of the Railway Progress Institute for "The Most Effective Promotion of Freight Traffic."

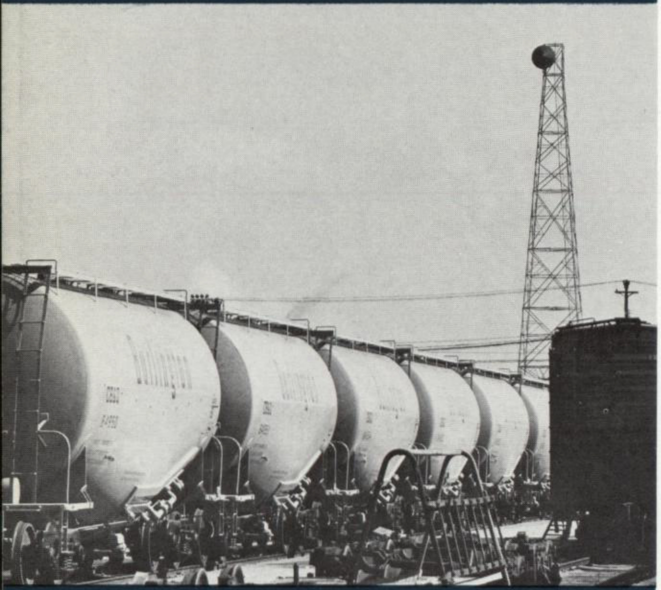
Similarly, the railroad received the annual award of the Midwest Travel Writers Association for having "The Best Passenger Promotion Of Any Transportation Company" in 1966.

The death of Harry C. Murphy on March 4, 1967, a beloved and long-time officer, saddened all those who knew him. Mr. Murphy was president from 1949 until 1965, and a director until the time of his sudden death. Under his able direction the railroad added to its reputation for progress and innovation.

The Burlington's officers and employees are dedicated to maintaining the progress and growth which have been a mark of the railroad over the years.

William J. Quinn

President



Freight Traffic

Burlington freight revenue and volume set all-time records in 1966. Total freight revenues of $241,524,282 rose $19.4 million above those of the preceding year and were the highest in history. Revenue ton-miles reached 20.5 billion, exceeding even the traffic peaks of World War II.

Shipper preference for large-quantity shipments that afford lower unit freight costs was responsible for the slight decline, to 1.178¢ from 1.179¢, in the amount received for carrying an average ton-mile of freight. The average freight train carried 1,636.5 tons, up from 1,584.7 tons in 1965.

Agriculture Grain provided the principal increase in tonnage and revenues as goverment stored grain was released in substantial quantities for export purposes. It was a good crop year, with varying increases recorded in the production of wheat, corn, sorghums, soybeans, sugar beets, rye and barley. Livestock production continued at a high level. Relaxation of federal acreage controls augurs well for wheat and sugar beet crops next year.

Piggyback A vigorous sales effort, coupled with the purchase of two rubber-tired mobile cranes for the Chicago piggyback terminal that are the largest and fastest in railroading, helped boost piggyback volume to 73,107 trailers, a gain of 38%. Additional loading ramps were built at key points, increasing the system total to 64.

Coal Unit trains of coal were operated regularly from mines in southern Illinois to Chicago, where the coal is transloaded into lake boats. Another unit train operation commenced between a mine near Benton, Ill., and Union Electric Company's giant Sioux generating plant at Machens, Mo. Economies made possible by new loading and unloading techniques, specially designed equipment and unit train operation permitted the setting of a low but profitable rate that won the utility's substantial coal hauling business; an additional 70 aluminum-and-steel, 105-ton cars were authorized to be added to the fleet of 141 cars used for this service. An additional 200 100-ton steel hopper cars were purchased to meet other demands for coal transportation.

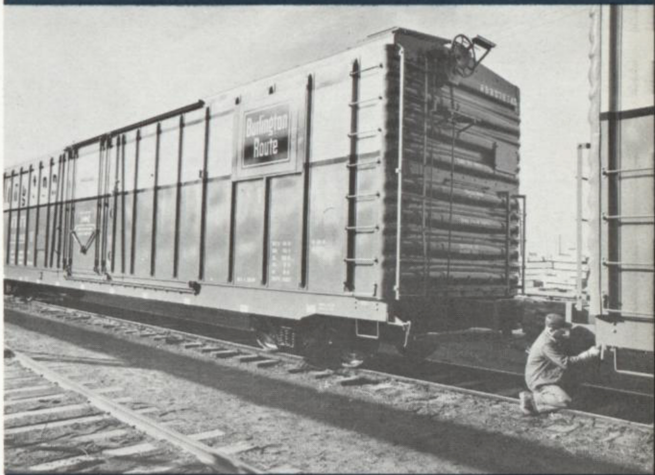
Marketing Research Recognizing the necessity for sophisticated techniques in marketing research, a new department was established and assigned the initial task of determining relative profitability of various types of traffic. Subsequent studies sought to determine the traffic potential of various industries. Results are made available to six new traffic managers, each of whom is assigned responsibility for acquiring specialized knowledge about a key traffic-producing industry and its product distribution problems.

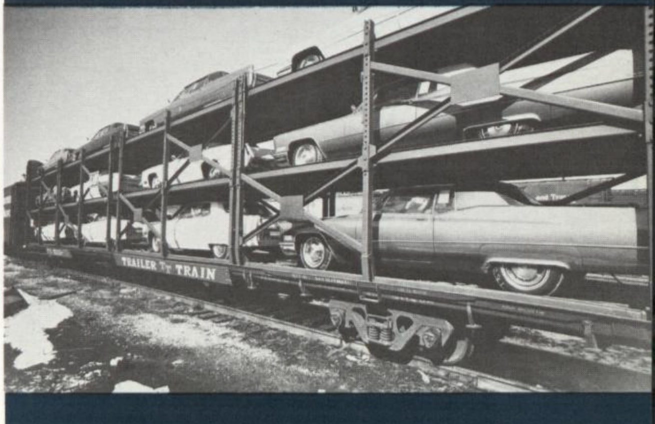
Quality Control Because dependability of transportation ranks first in importance with shippers, this new section was established to cooperate with the transportation department to help achieve greater on-time train performance and greatest possible utilization of expensive freight cars. Its inherent profit potential is evidenced by a 20% increased utilization of a select group of covered hopper cars, achieved as a result of careful attention to this type car by quality control specialists.

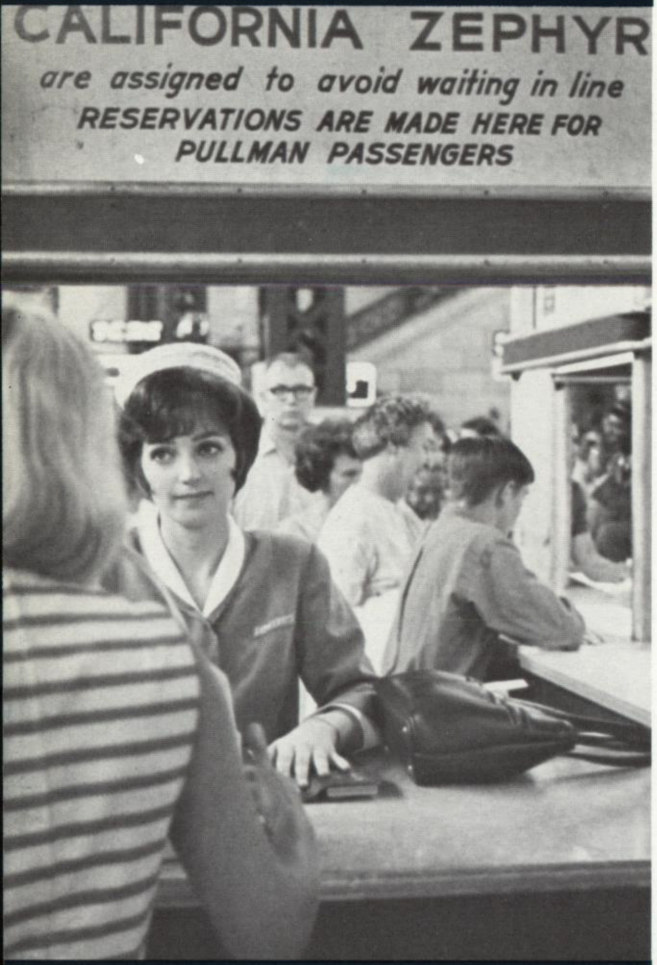
Perishables Modern, highly automated meat packing plants continue to locate along the Burlington, producing an increasing volume of meat shipments in refrigerated cars, containers and piggyback trailers. The railroad's new mechanical refrigerator cars, largest in the industry, have received enthusiastic acclaim from shippers. Meat is carried on high speed freight trains; Express 14, Omaha to Chicago meat special, operates on passenger train schedules affording early morning connections at Chicago with fast freights of eastern roads.

Rate Making The rates and divisions department has been successful in tailoring reduced rates to include cost-reducing features, and in making rates to encourage long haul shipments. Cost reduction devices include such factors as high minimum weights for loading, reduced free-time privileges, and specification of multiple-car or annual volume-guarantee shipments. To foster longer hauls, rates were reduced on sorghum grains to the Southeast via St. Louis, and one-factor rates were negotiated for shipments of various commodities from Chicago and St. Louis to the Hawaiian islands. Shippers are furnished lower rates for performing their own pickup and delivery services. Previous losses on less carload traffic were eliminated with discontinuance of this service.

urlington Route
Gale
OUTBOARD MOTOR
CLARK






CALIFORNIA ZEPHYR
are assigned to avoid waiting in line
RESERVATIONS ARE MADE HERE FOR
PULLMAN PASSENGERS

Passenger Traffic

In the face of a national decline in rail passenger traffic, Burlington passenger revenues increased to $20,902,906, indicative of continued aggressive promotion, advertising and sales effort. Competitive pricing was responsible for a dip in average passenger revenue per mile, from 2.55¢ in 1965 to 2.51¢ in 1966.

Commuter Revenues from Chicago-area suburban service increased 4.8% to $5,008,460. Burlington's suburban service has set the standards for modern commuter railroads since 1950, when the nation's first double-deck gallery cars and all-air conditioned suburban service were inaugurated. These advances were followed in 1952 by the first all-diesel powered suburban service.

To continue to provide the finest commuter service in the nation, several more suburban stations were remodeled during the year, and various additions made for the comfort and safety of patrons.

Equipment used in suburban service is exclusively stainless steel, double deck cars except for one single level, power-generating car per train. Diesel locomotives are equipped with cab signals to permit normal operations even in dense fog. Two-way radios link engineers with dispatchers and key wayside installations. Suburban trains speed over a three-track main line signaled for operation in both directions, which greatly expedites traffic flow during morning and evening rush-hour periods.

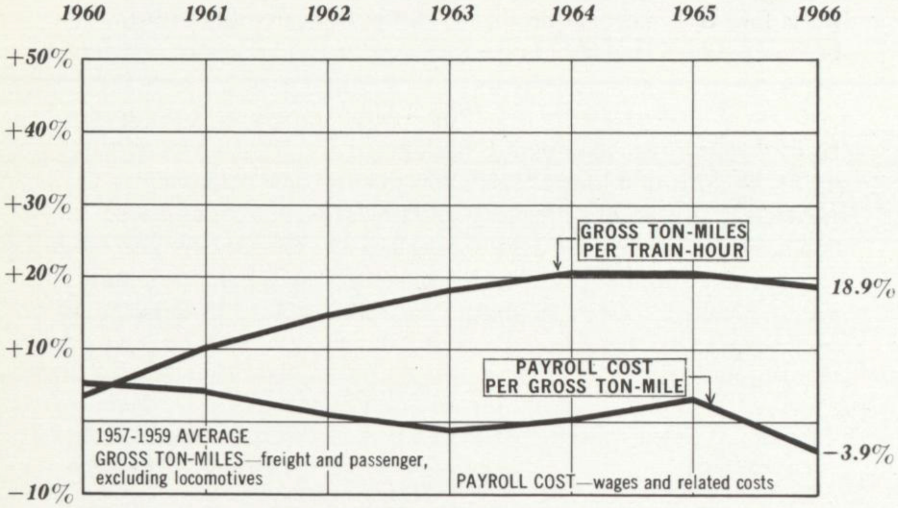
Towns served, which lie to the west-southwest of Chicago along the 38-mile route to Aurora, are growing and it is anticipated suburban patronage will increase as a result.

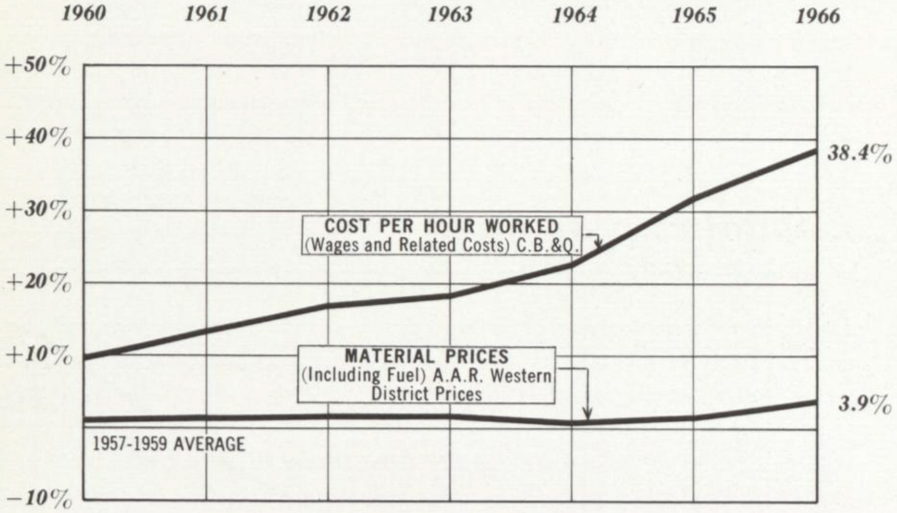
Advertising of suburban service was begun with sprightly newspaper advertisements and humorous radio commercials.

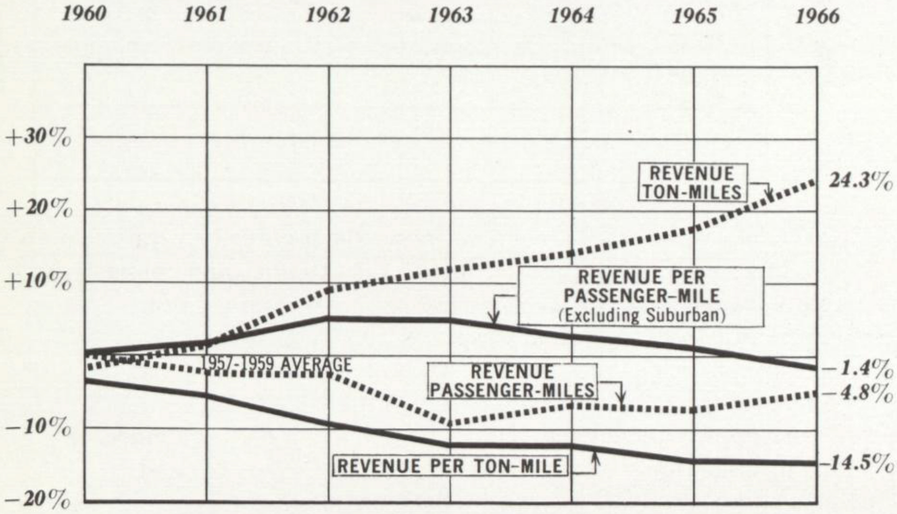
Other Mail revenues declined 5.7% to $12,772,162, and express income declined 12%, to $3,053,813. Dining car revenues remained virtually unchanged, at about $2,000,000.

Discontinuances Realizing that if Burlington is to continue to operate one of the finest passenger train services in the world the overall passenger operation must be maintained in financial health, management constantly appraises the use made of trains by the public. When patronage declines to the extent a train consistently reports losses, steps are taken to discontinue it. Trains 31-32, between Alliance, Neb., and Casper, Wyo., were discontinued February 28, 1966. Applications are pending before the Interstate Commerce Commission to discontinue Trains 33-34 between Alliance, Neb., and Brush, Colo. An application filed November 4, 1966 to discontinue Trains 15-8, between St. Louis, Mo. and Burlington, Iowa, was granted by the Commission.

Trends


1960
1961
1962
1963
1964
1965
1966
+50%
+40%
+30%
+20%
+10%
-10%
GROSS TON-MILES PER TRAIN-HOUR
18.9%
PAYROLL COST PER GROSS TON-MILE
-3.9%
1957-1959 AVERAGE
GROSS TON-MILES—freight and passenger, excluding locomotives
PAYROLL COST—wages and related costs


1960
1961
1962
1963
1964
1965
1966
+50%
+40%
+30%
+20%
+10%
-10%
COST PER HOUR WORKED (Wages and Related Costs) C.B.&Q.
38.4%
MATERIAL PRICES (Including Fuel) A.A.R. Western District Prices
3.9%
1957-1959 AVERAGE

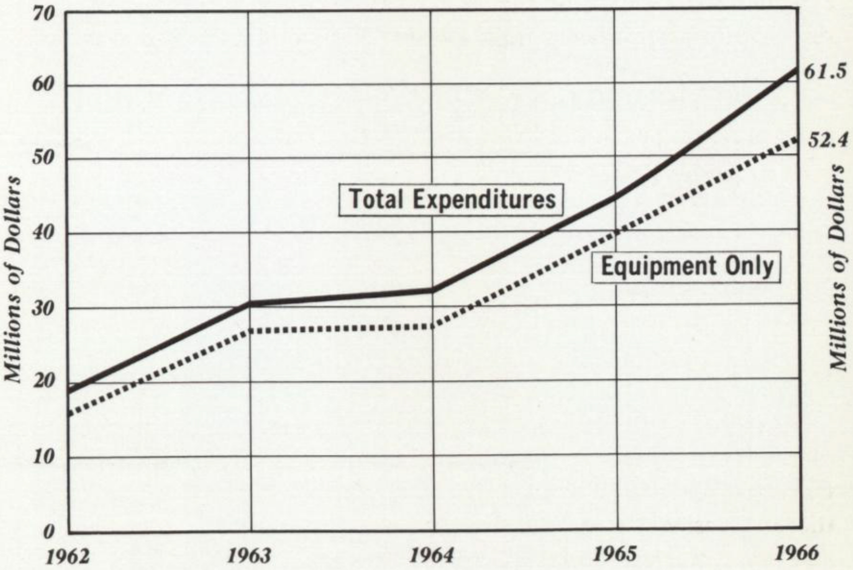

1960
1961
1962
1963
1964
1965
1966
+30%
+20%
+10%
-10%
-20%
REVENUE TON-MILES
24.3%
REVENUE PER PASSENGER-MILE (Excluding Suburban)
-1.4%
1957-1959 AVERAGE
REVENUE PASSENGER-MILES
-4.8%
REVENUE PER TON-MILE
-14.5%

Improvements

Capital Expenditures in 1966 The improvement program of the Burlington reached an all-time high with a record expenditure of $61,508,827, of which $52,419,080 was for new equipment. Included in this record-breaking investment were 40 high speed diesels for freight service, 1,153 roller bearing freight cars purchased from outside suppliers, and 1,100 roller bearing freight cars built in the Havelock, Nebraska shops. An additional 2,298 freight cars were repaired at Havelock.

	Gross	Retirements	Net
Road	$10,063,253	$ 3,773,144	$ 6,290,109
Equipment	52,419,080	16,561,094	35,857,986
General	(141)	—	(141)
Construction work in progress	(973,365)	—	(973,365)
Total	$61,508,827	$20,334,238	$41,174,589

Capital Expenditures

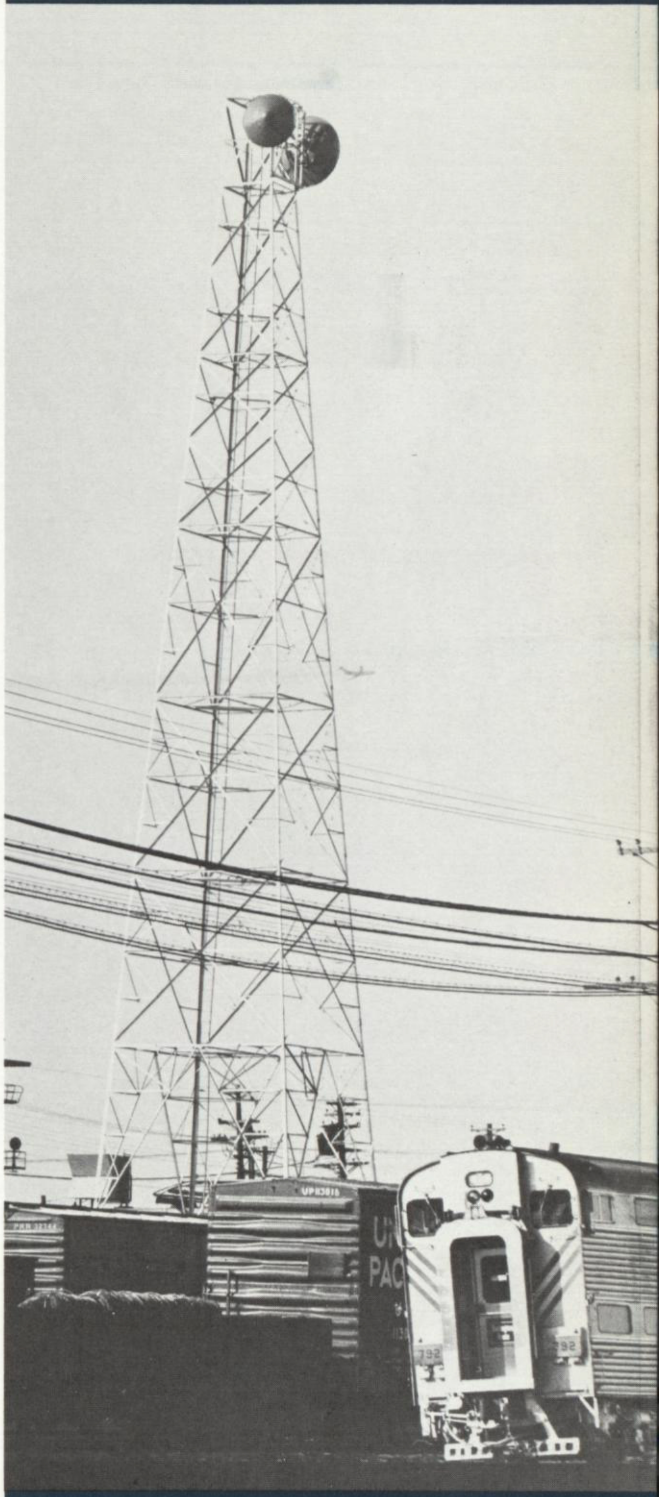


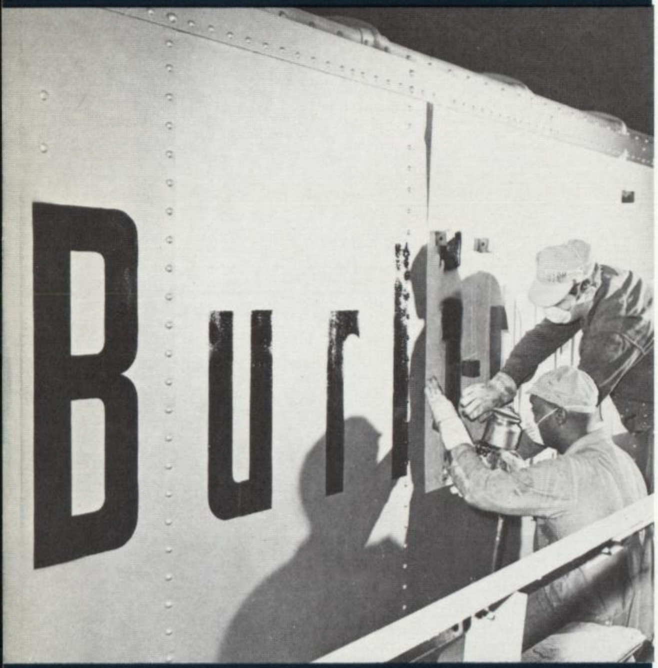
Communications Vast amounts of data which must be transmitted to the modern computer center in the Chicago general office building necessitate use of a reliable, high-capacity form of transmission. To provide it, a system microwave network was authorized and now is under construction. The Chicago-Galesburg link is scheduled for completion early in 1967, with the Galesburg-Lincoln portion to be completed late in the year. The new network will provide direct telephone dialing, and the simultaneous transmission of 600 voice conversations or 8,500 teleprinter communications. Reciprocal arrangements are being made with connecting railroads to provide direct microwave communications to Denver, Pacific Coast cities, and to points in the Pacific Northwest.

Continuing a long-standing policy of providing the most modern communications where they will contribute to increased efficiency or safety, two-way radio systems were installed at many stations and operating department installations, and at such locations as a mobile piggyback crane and a drawbridge.

Signals To gain greater safety of operations, together with increased efficiency and economy, centralized traffic control was extended for 33 miles on the main line in Illinois. Signals were respaced to permit faster freight train operations in Illinois and Missouri, and several mechanical interlockings were replaced by automatic interlockings with fail-safe protective devices. This year, as in previous years, many highway grade crossings were equipped with automatic protection.

Engineering Repair, remodeling or construction of the many structures that comprise a modern railroad plant is a never-ending, year-long job. Major projects in 1966 were the construction of new freight houses at Lincoln, Neb., and Chicago, which necessitated relocation of the main line and construction of extensive yard trackage at the latter point, and the complete remodeling and refurnishing of the 16-story Chicago general office building. The plan of the engineering department is to convert the 1,034-mile Chicago-Denver line to all welded rail; this work program, begun by the late president Harry C. Murphy, was continued this year, with additional welded rail installed in Illinois and Iowa.





General

Dividends totaling $7.50 per share were paid in 1966, the *105th consecutive year* in which the Company has paid a dividend.

Taxes In 1966 taxes increased $2,724,416 compared with 1965:

Federal Income Taxes.....	$ 5,307,509	$3,964,889 Increase
Federal Railroad Retirement Taxes........	9,194,130	968,837 Increase
Federal Unemployment Taxes..................	3,544,060	223,236 Decrease
State and Miscellaneous Taxes..................	7,693,145	1,986,074 Decrease
Total in Income Account (Page 18)	$25,738,844	$2,724,416 Increase

Federal income taxes for the year were reduced $1,725,725 by application of investment tax credit. The Investment Credit Suspension Act suspended the investment tax credit during the period October 10, 1966 through December 31, 1967, resulting in a decrease of $52,500 in the amount of investment tax credit allowable in 1966. Unless the law is amended it will result in a substantial increase in income taxes in 1967. In addition to the suspension, however, the Act raises the maximum limitation on the amount of investment credit allowable from 25% to 50% effective January 1, 1968, and extends the carryover period to allow fuller use of available accumulated credits after the suspension period. As of December 31, 1966, accumulated unused investment tax credits of approximately $7,900,000 are available for carry forward to future years.

Labor After receiving wage and benefit demands from all unions, national agreements were signed with organizations representing trainmen, firemen, clerks, telegraphers, signalmen, maintenance of way workers and dining car personnel. These provided generally for a 5% increase in wages and a reduction from 15 to 10 years of qualifying time for a three-week vacation. Each agreement contained a moratorium on wage increases until varying dates in 1968. Retroactive provisions of the increases cost the railroad about $800,000 in 1966.

In 1966 a movement on the part of the labor organizations to obtain supplementary pensions resulted in an agreement with railroad management. Subsequently a joint request was made to Congress to amend the Railroad Retirement Act to increase pensions to those already retired and those retiring in the next five years. The added cost will be borne by the railroads and financed through an increase in the payroll tax.

Safety A new and enlarged safety department conducted an aggressive program to make employees more aware of the need for safe work practices. Six safety supervisors at key locations on the railroad assist officers to promote safety in their respective areas. At year's end, employee accidents had been reduced by 25%, and a continuing reduction is expected in 1967.

Employee Benefits Premiums totaling $5,392,039 were paid for the five group life and hospital insurance plans covering employees and their dependents—$4,822,186 for plans covering represented employees and $569,853 for the plan covering officers and non-represented employees. Payments of $789,541 were made by the relief department to employees and their beneficiaries for disability and death claims.

Pension payments of $1,641,491 were made to 624 retired officers and employees and 253 widows under the Company Supplementary Pension Plan.

Federal taxes of $9,194,130 were paid for retirement and survivor benefits under the Railroad Retirement Act and for Medicare. Similar taxes in 1965 were $8,225,293. The increase in 1966 resulted from moving the tax base from $450 to $550 per month effective January 1, 1966, and the addition of an excise tax of 2¢ per man-hour to finance the supplemental annuity program under the November 1, 1966 amendments to the Railroad Retirement Act. During 1966 the Railroad Retirement tax rate was 7.95%, including 0.35% for Medicare; effective January 1, 1967, the tax rate was increased to 8.65%, including 0.5% for Medicare.

The Railroad paid federal taxes of $3,544,060 for unemployment, sickness and maternity benefits, compared with $3,767,296 in 1965, a decrease of $223,236, or 5.93%, due to a lesser number of employees during the year.

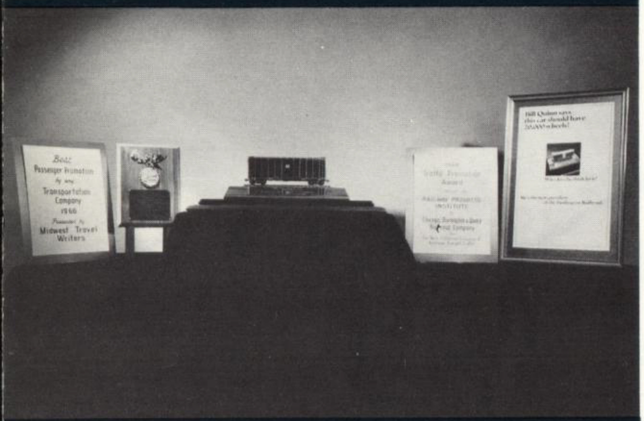
Data Processing Over 700 data processing programs were converted for use in a System 360 Model 40, received in December and located in a 3300-square foot, air conditioned data center constructed in the general office building. Air pressure differential is maintained to assure a dust-free environment.

A second System 360 Model 40 will be installed in 1967, and real-time processing of train and car movement data will begin.

To perform present and future assignments, the staff of the Management Information Services division was substantially increased. An additional field force is constantly training agents and operators at various locations in error-free transmission of car and engine movement data. A field reporting system to provide added waybill information will require regional training sessions next year for the more than 1500 employees who supply pertinent data on a 24-hour basis.

SAFETY
BURLINGTON
FIRS
DAYS WITHOUT A REPORTABLE INJURY
BOILERMAKERS
ELECTRICIANS
PIPEFITTERS
MACHINISTS
LABORERS
SAFETY COMMITTEE
BOILERMAKERS
ELECTRICIANS
PIPEFITTERS
MACHINISTS
LABORERS

PLAN
Effective $
management



General (*Continued*)

Education To increase the level of skills of Burlington employees, and to develop on the part of supervisors a better understanding of the art of management, including sales, employee relations and communications, an intensive education effort got underway in 1966. Employees of various departments also may seek learning at institutions ranging from colleges to home study correspondence schools. Burlington pays part of tuition and book costs for classes related to job advancement. Officers attend Harvard Business School's Advanced Management Program and other college-sponsored courses.

Public Relations-Advertising A new advertising agency was selected and new advertisements placed in print media and radio, beginning in April. Corporate "Burlington Wheel" advertisements appear in leading business journals and influential daily newspapers. Emphasis of the new advertising is on freight traffic and industrial development, and on gaining recognition of the Burlington as a modern, vigorous railroad.

A monthly newsletter summarizing new techniques and ideas for industrial traffic managers commenced publication, and the Company's bimonthly employee magazine began to be mailed to the homes of employees and retirees.

Merger On April 27, 1966, the Interstate Commerce Commission rejected the application of this railroad to merge with the Great Northern and Northern Pacific railways. On July 27, 1966, the lines petitioned the ICC to reconsider its decision, which on January 4, 1967, it agreed to do. On March 6-8, 1967, a further hearing was held in Washington to determine changed circumstances since the close of earlier hearings in July, 1962. A further hearing is scheduled for May 9, 1967, to be followed 30 days after its close by oral argument. On the basis of indicated scheduling, it is anticipated the Commission's decision will be announced shortly after oral argument has concluded.

Open fold-out section for map of Burlington Route System ⇨

Real Estate and Industrial Development

Important new industries announced plans to locate along the railroad in what was one of the most productive years ever for industrial development activity. Not unrelated to these results were a reorganization and expansion of the department and national advertising that told business executives of the railroad's expanded facilities to assist firms seeking a location. A Gulfstream airplane was purchased to make it possible to show decision makers of site-seeking industries various properties in a matter of hours.

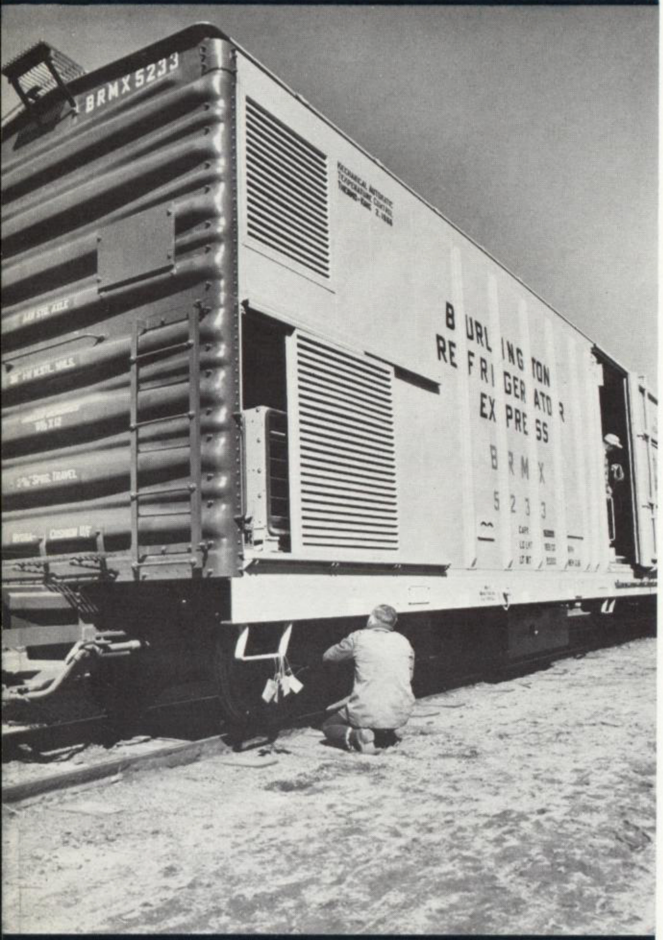
A new high for industrial activity was reached as 996 firms purchased or leased land for new plants or to expand existing ones. Many of the leases were for carload-using fertilizer distribution facilities, an activity that for several years has expanded greatly throughout the agricultural territory served by the railroad. Additionally, 64 new industry or contractor tracks were installed, or existing permits for them renewed.

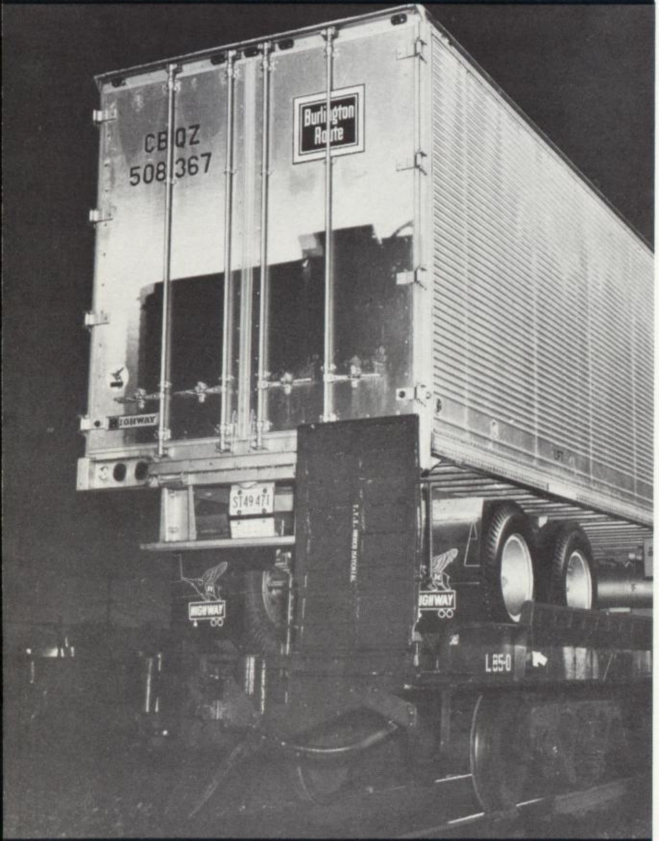
New plants that were announced or began construction in 1966 include that of National Biscuit Company, to rise on 50 acres of the Naperville (Ill.) industrial park; Archer-Daniels-Midland Co.'s soybean processing plant at Lincoln, Neb., largest in the country; Sinclair Petrochemical Co.'s $60 million complex at Fort Madison, Iowa; Stephenson-Yost Co.'s steel fabricating plant at Paseo industrial district of North Kansas City; Western Kraft's distribution warehouse in the Montgomery industrial district at Aurora, Ill.; Grabler Co.'s plant in the Colorado Blvd. industrial district at Denver; and the $60 million, automated plant of Dundee Cement Co., Clarksville, Mo., most modern in the world.

The decision of the Atomic Energy Commission to select some 7,000 acres of land near the railroad at Weston, Illinois for the location of a 200-billion-electron-volt proton accelerator laboratory is of considerable significance for the area and the Company. It is anticipated that this giant scientific undertaking eventually will attract firms engaged in electrical power, electronics, nuclear power and weaponry, communications, petroleum, plastics and chemicals.

Significance These various new or expanded activities throughout the railroad's territory will produce new carload or piggyback traffic, and their payrolls will enhance the economy of each locality.

Looking Ahead To be able to offer industry a wide choice of acreage in various locations, the department conducts a virtual land bank operation; as parcels are sold or leased, new land is acquired. During 1966, 232 acres were acquired to form the Riverside Industrial District, to be available when acreage in the nearby Paseo district of North Kansas City is exhausted. An additional 120 acres were acquired at Naperville, Illinois to expand what promises to be a popular industrial park. Options were obtained on lands at several other locations throughout the system.





C.B.& Q. R.R. Co. and Subsidiaries

Consolidated Statement of Income and Retained Earnings

	Years ended December 31, 1966	1965
Operating Revenue	$347,011,232	$325,477,848
Cost and Expenses (Notes 3, 4 and 5)		
Operating expenses	273,298,081	266,546,441
Taxes, other than federal income taxes	24,707,815	25,775,079
Rents, net	12,600,609	10,575,162
	310,606,505	302,896,682
	36,404,727	22,581,166
Other Income		
Dividends and interest	2,247,499	2,166,966
Sundry, net	3,197,522	2,957,296
	41,849,748	27,705,428
Interest and other fixed charges	10,742,782	9,514,680
Net income before income taxes and minority interest	31,106,966	18,190,748
Provision for federal income taxes	5,500,000	1,400,000
Minority interest in net income of subsidiaries	524,569	408,028
	6,024,569	1,808,028
Net income, (Transportation companies on I.C.C. basis) (Note 2)	25,082,397	16,382,720
Retained Earnings:		
Balance at beginning of year	460,726,547	458,342,732
	485,808,944	474,725,452
Add (Deduct)		
Dividends paid, $7.50 per share	(12,812,902)	(12,812,902)
Prior years' adjustments (Note 5)	6,999,993	(1,186,003)
Balance at end of year	$479,996,035	$460,726,547

See accompanying notes to financial statements (page 16 and 17)

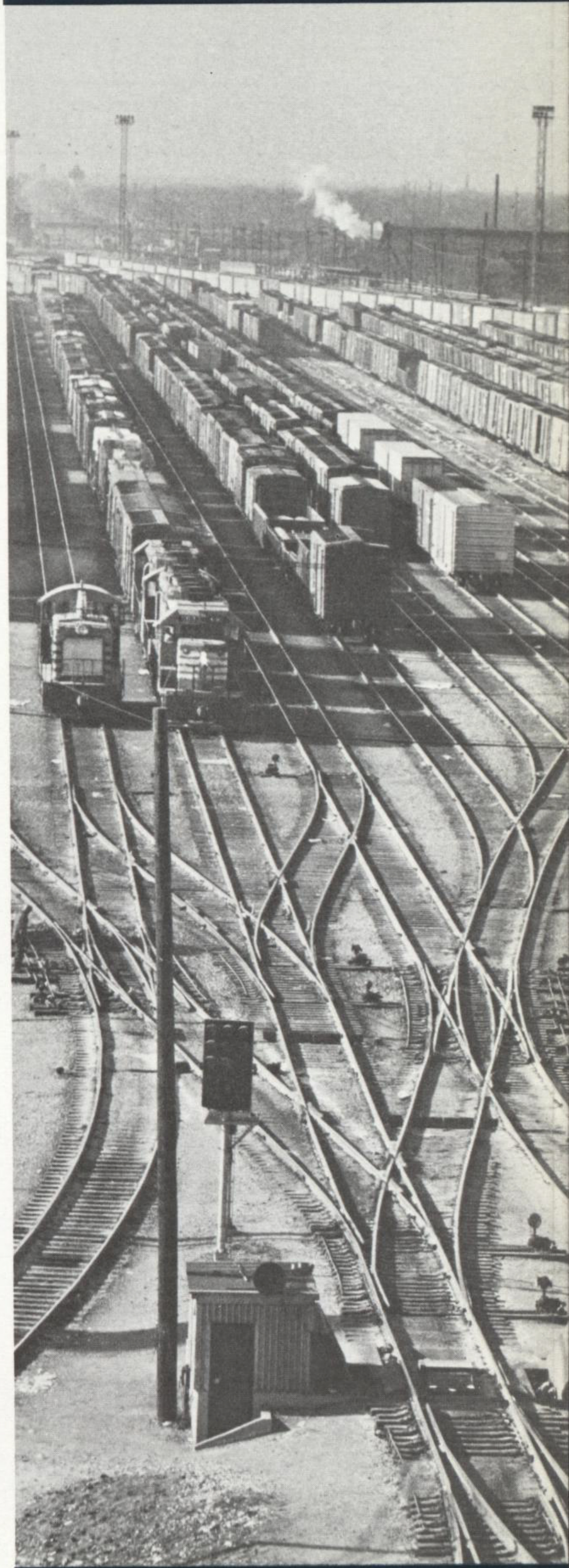
C.B.& Q. R.R. Co. and Subsidiaries

Consolidated Balance Sheet

Assets	December 31 1966	 1965
Current Assets		
Cash and temporary investments	$ 37,498,113	$ 44,190,403
Accounts receivable	35,055,573	34,506,635
Materials and supplies, at cost	16,460,882	22,324,933
Other current assets	1,224,113	1,620,677
Total current assets	90,238,681	102,642,648
Other Assets		
Investments and advances	38,859,101	25,213,955
Capital funds, deferred charges, etc.	23,276,674	20,634,738
	62,135,775	45,848,693
***Properties* (*Notes 3, 5 and 6*)**		
Road and equipment	1,246,038,661	1,169,964,142
Accumulated depreciation and amortization	(377,810,460)	(351,935,241)
Net non-operating properties	14,209,272	16,575,312
	882,437,473	834,604,213
	$1,034,811,929	$ 983,095,554

Liabilities		
Current Liabilities		
Accounts payable	$ 43,393,626	$ 37,244,855
Accrued interest and taxes	19,060,382	12,945,177
Other current liabilities	4,691,350	7,045,985
Current portion of long-term debt	18,092,180	18,233,624
Total current liabilities	85,237,538	75,469,641
Long Term Debt	275,785,390	253,457,149
***Casualty Reserves and Other Liabilities* (*Notes 2 & 7*)**	8,414,364	8,198,647
Minority Interest in Subsidiaries	14,539,502	14,404,470
Stockholders' Equity		
Capital stock, $100 par value, authorized and outstanding - 1,708,391 shares	170,839,100	170,839,100
Retained earnings (Notes 2 and 5)	479,996,035	460,726,547
Total Shareholders' equity	650,835,135	631,565,647
	$1,034,811,929	$ 983,095,554

See accompanying notes to financial statements (page 16 and 17)



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Notes To Financial Statements

Note 1: The consolidated financial statements include the Company and all companies for which more than 50% of the outstanding capital stock is owned directly or indirectly by the Company.

The consolidated financial statements for 1966 were audited by independent accountants; in 1965 only the Chicago, Burlington & Quincy Railroad Company was similarly examined and the subsidary companies are included in the 1965 consolidation for comparative purposes only.

Note 2: The Company and its transportation subsidiaries maintain their books of account in accordance with principles and methods of accounting prescribed or authorized by the Interstate Commerce Commission and the accompanying statements have been prepared in conformity thereto.

The statements vary from generally accepted accounting principles because deferred income taxes have not been provided for the net excess of amortization and accelerated and guideline depreciation over the normal depreciation prescribed by the I.C.C.

The adjustment necessary to present net income in conformity with generally accepted accounting principles would be:

	1966	1965
Consolidated net income, transportation companies in conformity with I.C.C. principles	$25,082,397	$16,382,720
Adjustments for estimated income tax effect of:		
Amorization of defense facilities	1,900,000	1,900,000
Accelerated and guideline depreciation	(6,200,000)	(9,300,000)
Consolidated net income stated in conformity with generally accepted accounting principles	$20,782,397	$ 8,982,720

The accumulated income tax effect at December 31, 1966, not reflected in the accompanying consolidated balance sheet, is estimated to be $78,700,000 based on on current rates.

Note 3: In accordance with Interstate Commerce Commission regulations, rails, ties, and other track materials are not depreciated. The Company and its railroad subsidiaries follow an acceptable alternate practice of "replacement" accounting for such properties instead of the usual depreciation accounting. Under this method, replacements in kind are charged to expenses and only improvements and additions are capitalized. The amounts capitalized are not depreciated. Charges to operating expenses were as follows:

	1966	1965
Track replacements	$14,964,648	$13,546,028
Depreciation of other properties	$25,073,396	$24,559,237
	$40,038,044	$38,105,265

Note 4: Refunds of prior year state property taxes are credited to net income in accordance with I.C.C. accounting principles. The effect of such refunds on consolidated net income was $1,454,523 in 1966 and $370,074 in 1965. No substantial additional refunds are anticipated.

Note 5: The net credit to retained earnings in 1966 consists of the following items:

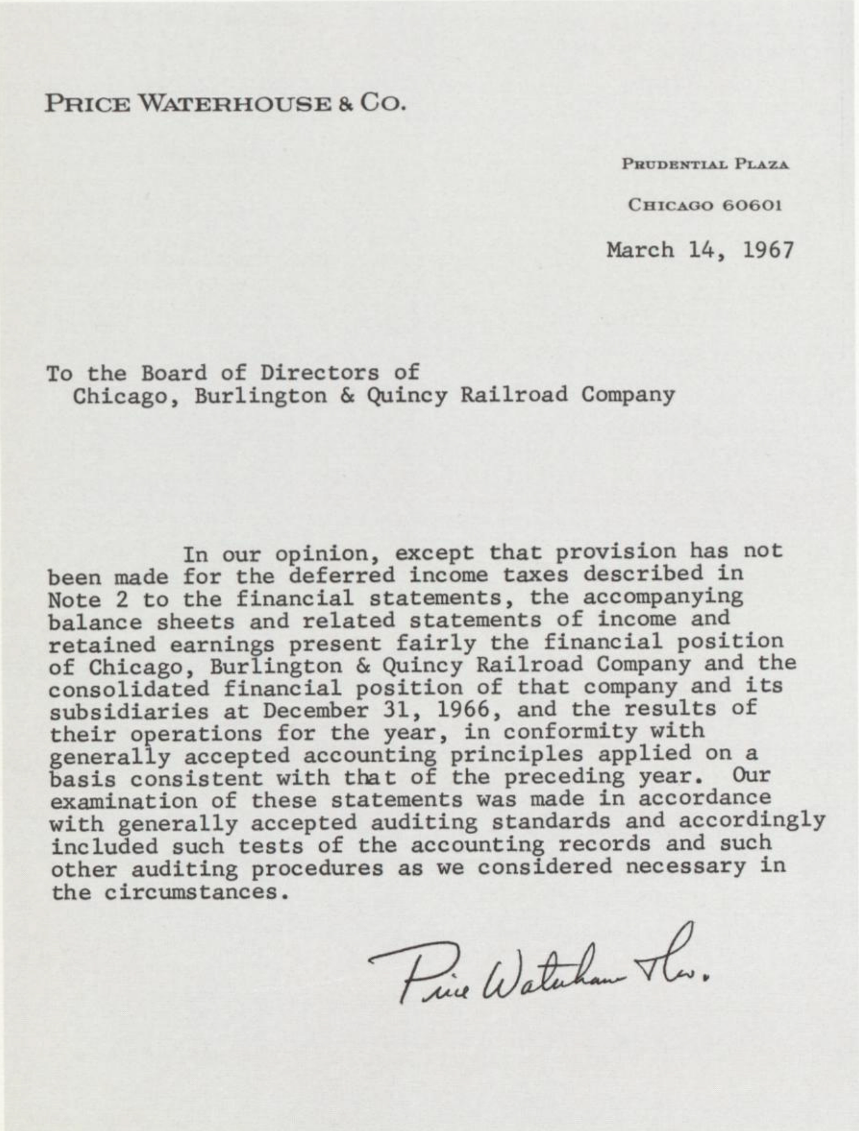
Net effect of adjustments to prior years' depreciation prescribed by the I.C.C.	$ 9,273,980
Writedown of investment in a non-affiliated company, less federal income tax benefit of $475,000	(1,425,000)
Writedown of secondhand materials and supplies to market value, less federal income tax benefit of $783,680.	(848,987)
Net credit to retained earnings.	$ 6,999,993

The charge of $1,186,003 to retained earnings in 1965 consists primarily of an adjustment of prior years' deficiencies in casualty and other reserves. The effect of I.C.C. prescribed changes in depreciation has been to increase 1966 net income in conformity with I.C.C. accounting rules by approximately $1,500,000.

Note 6: Gross properties are stated at estimated original cost determined on the basis of Interstate Commerce Commission physical inventories of properties conducted prior to 1920, plus cost of additions and betterments and less retirements since that date. The amount by which the book cost of The Colorado and Southern Railway Co. and the Fort Worth & Denver Railway Co. properties exceeded the cost determined on the basis of the physical inventory is reflected in the property accounts of the individual companies and is being amortized over a period of years. For purposes of consolidation, properties and retained earnings have been reduced by $31,355,328 representing the unamortized portion of such excess cost.

Note 7: The Company and its subsidiaries have guaranteed, jointly with others, certain obligations issued by affiliated companies. At December 31, 1966, the total amount of obligations so guaranteed was $248,426,362 and the consolidated contingent liability under such guaranties, assuming no default by the co-guarantors, was $22,830,599.

Under service interruption policies which insure the Company and its railroad subsidiaries against work stoppage losses, additional premiums, subject to a maximum premium of $4,720,200, may be charged to the Company or its railroad subsidiaries in the event such losses are sustained by other railroads holding similar policies.



PRICE WATERHOUSE & CO.

PRUDENTIAL PLAZA
CHICAGO 60601

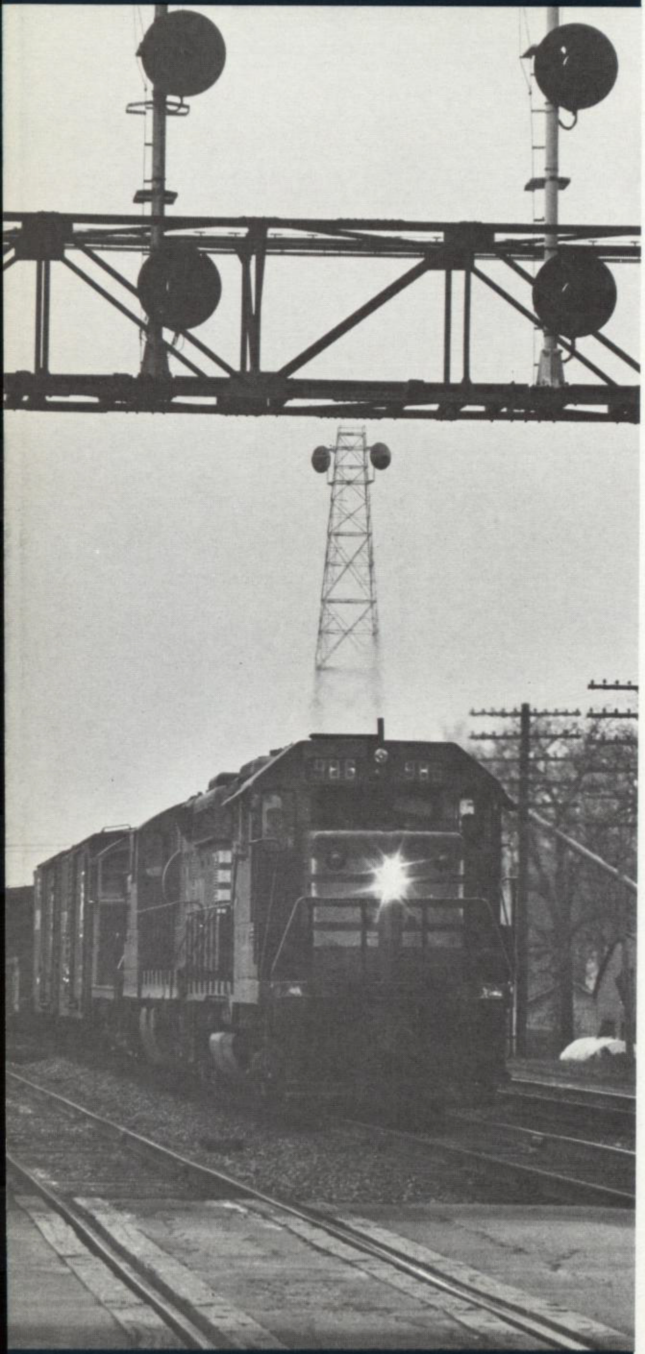
March 14, 1967

To the Board of Directors of
Chicago, Burlington & Quincy Railroad Company

In our opinion, except that provision has not been made for the deferred income taxes described in Note 2 to the financial statements, the accompanying balance sheets and related statements of income and retained earnings present fairly the financial position of Chicago, Burlington & Quincy Railroad Company and the consolidated financial position of that company and its subsidiaries at December 31, 1966, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

LINCOLN ELEVATOR
AND
FEED CO.



Chicago, Burlington & Quincy Railroad Company

Comparative Statement of Income and Retained Earnings

	Years Ended December 31, 1966	1965
Railway Operating Revenues		
Freight	$241,524,282	$222,078,949
Passenger	20,902,906	20,781,498
Mail	12,772,162	13,547,200
Express	3,053,813	3,473,687
Other	11,369,184	10,572,042
	289,622,347	270,453,376
Railway Operating Expenses (***Notes 3 & 5***)		
Maintenance of way and structures	36,403,206	36,562,337
Maintenance of equipment	50,848,211	51,474,865
Traffic	8,834,454	8,675,969
Transportation	115,878,476	111,132,726
Miscellaneous operations	3,180,417	3,173,819
General	12,478,163	10,813,289
	227,622,927	221,833,005
Net Revenue From Railway Operations	61,999,420	48,620,371
Taxes other than Federal Income (Note 4)	20,431,335	21,671,808
Rentals for equipment and facilities, Net Dr.	7,554,211	5,182,141
Net Railway Operating Income	34,013,874	21,766,422
Other Income		
Dividends and interest	2,158,989	1,956,779
Miscellaneous	3,178,761	3,062,907
	39,351,624	26,786,108
Other Deductions		
Interest and fixed charges	9,556,282	8,299,224
Miscellaneous	677,241	451,174
	10,233,523	8,750,398
Net Income Before Income Taxes	29,118,101	18,035,710
Provision for Federal Income Taxes	5,307,509	1,342,620
Net Income—In conformity with I.C.C. accounting rules (Note 2)	23,810,592	16,693,090
Retained Earnings		
Balance at beginning of year	419,109,872	416,499,687
	442,920,464	433,192,777
Add (Deduct)		
Dividends—$7.50 per share	(12,812,902)	(12,812,902)
Adjustments to Retained Earnings (Note 5)	6,970,023	(1,270,003)
Balance at end of year	$437,077,585	$419,109,872

See Pages 16 and 17 for notes to financial statements.

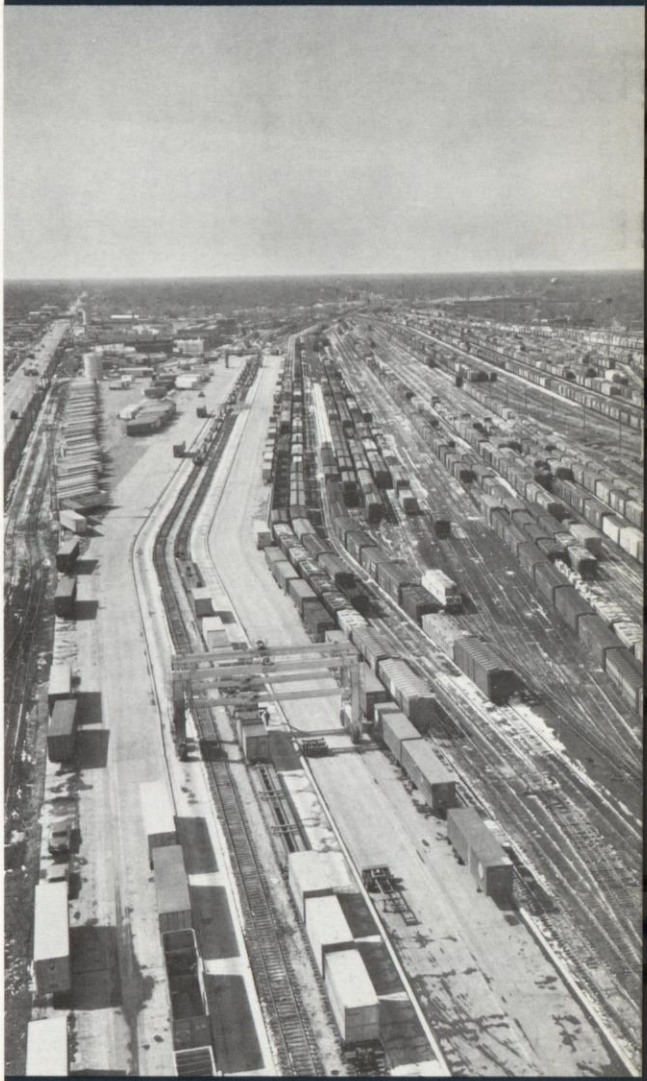
Chicago, Burlington & Quincy Railroad Company

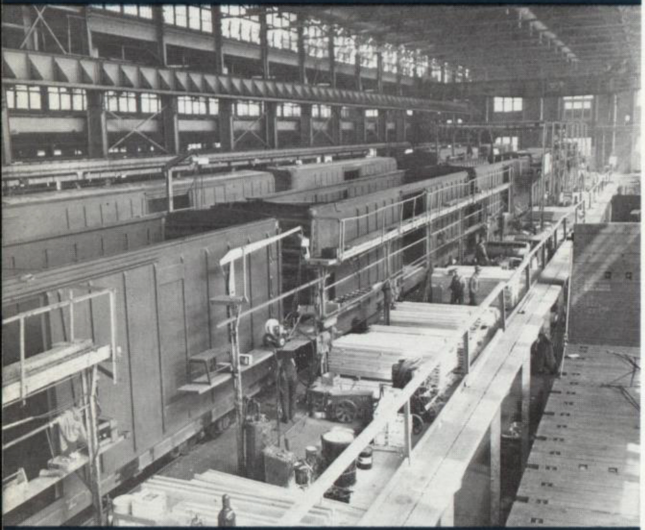
Balance Sheet

Assets	December 31	
	1966	1965
Current Assets		
Cash and temporary investments	$ 32,469,017	$ 38,759,092
Accounts receivable	33,417,376	32,204,869
Materials and supplies, at cost	14,116,111	19,833,257
Other current assets	471,748	649,777
Total current assets	80,474,252	91,446,995
Other Assets		
Investments and advances	60,258,995	45,827,681
Capital funds, deferred charges, etc.	16,575,439	18,838,890
	76,834,434	64,666,571
Properties (***Notes 3, 5 & 6***)		
Road and equipment	1,096,159,968	1,023,057,867
Accumulated depreciation and amortization	(333,555,793)	(308,236,797)
Net non-operating properties	11,132,674	13,439,911
	773,736,849	728,260,981
	$ 931,045,535	$ 884,374,547

Liabilities		
Current Liabilities		
Accounts payable	$ 36,675,994	$ 28,960,446
Accrued interest and taxes	17,684,692	11,693,730
Other current liabilities	3,533,380	5,716,452
Current portion of long-term debt	15,087,201	15,352,455
Total current liabilities	72,981,267	61,723,083
Long-term Debt	242,833,455	225,689,345
Casualty Reserves and Other Liabilities (***Notes 2 & 7***)	7,314,128	7,013,147
Stockholders' Equity		
Capital stock, $100 par value, authorized and outstanding - 1,708,391 shares	170,839,100	170,839,100
Retained earnings (Notes 2 and 5)	437,077,585	419,109,872
Total Shareholders' equity	607,916,685	589,948,972
	$ 931,045,535	$ 884,374,547

See accompanying notes to financial statements (page 16 and 17)





Chicago, Burlington & Quincy Railroad Company

Changes in Working Capital

January 1 to December 31, 1966

Balance at beginning of year		$ 45,076,367
Sources of Working Capital		
Net income	$23,810,592	
Depreciation and other non-cash income items	22,043,029	
Sale of property, investments, and other assets	3,223,294	
Proceeds from equipment financing	38,849,024	
Capital and other reserve funds	2,771,493	
Other—net	561,493	
		91,258,925
		$136,335,292
Application of Working Capital		
Investment in affiliated companies	$ 6,329,598	
Other investments	10,000,000	
Additions to operating and non-operating property	62,926,826	
Reduction of debt	20,053,113	
Adjustment of second hand material value	1,632,667	
Dividends paid on capital stock	12,812,902	
		113,755,106
Balance at end of year		$ 22,580,186

Investments in Affiliated Companies

December 31, 1966

		Investment in			Dividend and interest income
	Percent of ownership	Stock	Bonds, notes and advances	Total	1966
Subsidiary Companies					
Burlington Equipment Co.	100.00	$ 5,000	$ 1,242,000	$ 1,247,000	$ —
Burlington Refrigerator Express Co.	100.00	100,000	—	100,000	—
Burlington Truck Lines, Inc.	100.00	750,000	405,267	1,155,267	—
Colorado and Southern Railway Co., The	74.72	22,172,276	229,168	22,401,444	378,982
Missouri and Illinois Bridge and Belt Railroad Co.	100.00	—	—	—	16,200
St. Louis and Kansas City Land Co.	100.00	100,000	10,809,433	10,909,433	—
Winona Bridge Railway Co.	66.67	300	—	300	—
Total		$23,127,576	$12,685,868	$35,813,444	$395,182
Affiliated Companies					
Atchison Union Depot and Railroad Co.	37.50	$ 27,000	$ 7,665	$ 34,665	$ —
Belt Railway Co. of Chicago, The	8.33	240,000	247,042	487,042	14,823
Chicago Union Station Co.	25.00	—	5,556,401	5,556,401	—
Davenport, Rock Island and North Western Railway Co., The	50.00	1,748,182	1,204,101	2,952,283	—
Denver Market & Produce Terminal, Inc.	20.00	50,000	220,828	270,828	—
Denver Union Terminal Railway Co., The	16.67	5,000	755,183	760,183	—
Fort Worth & Denver Ry. Co.	—	—	870,003	870,003	14,559
Illinois Northern Railway	25.00	250,940	—	250,940	—
Illinois Terminal Railroad Co.	9.09	1,818	—	1,818	—
Iowa Transfer Railway Co.	20.00	16,100	—	16,100	—
Kansas City Terminal Railway Co.	8.33	100,000	1,065,088	1,165,088	—
Keokuk Union Depot Co.	40.00	8,024	3,972	11,996	—
Minnesota Transfer Railway Co.	11.11	91,300	285,984	377,284	3,602
Packers Car Line Co.	19.18	6,140	—	6,140	—
Paducah & Illinois Railroad Co.	33.33	3,333	1,648,885	1,652,218	73,989
Pullman Co.	2.42	507,540	—	507,540	—
Railway Express Agency Inc.	2.80	2,700	780,719	783,419	39,036
Saint Paul Union Depot Co., The	12.50	130,475	290,844	421,319	9,994
Terminal Railroad Association of St. Louis	6.25	—	—	—	—
Trailer Train Co.	2.44	50,000	19,619	69,619	646
Total		$26,366,128	$25,642,202	$52,008,330	$551,831

MILNER HOTEL

Chicago, Burlington & Quincy Railroad Company

Directors and Officers

Directors

John M. Budd
President, Great Northern Railway Company
St. Paul, Minn.

Cris Dobbins
President, Ideal Cement Company
Denver, Colo.

R. W. Downing
Executive Vice President, Great Northern Railway Company
St. Paul, Minn.

J. C. James
Retired Executive Vice President and General Counsel
Chicago, Burlington & Quincy Railroad Company
Chicago, Ill.

Robert S. Macfarlane
Chairman of the Board, Northern Pacific Railway Company
St. Paul, Minn.

Eldon Martin
Vice President and General Counsel
Chicago, Burlington & Quincy Railroad Company
Chicago, Ill.

W. W. McCallum
President, John Morrell & Company
Chicago, Ill.

L. W. Menk
President, Northern Pacific Railway Company
St. Paul, Minn.

*H. C. Murphy
Retired President, Chicago, Burlington & Quincy Railroad Company
Chicago, Ill.

William J. Quinn
President, Chicago, Burlington & Quincy Railroad Company
Chicago, Ill.

Robert D. Stuart, Jr.
President, The Quaker Oats Company
Chicago, Ill.

Executive Committee

William J. Quinn, *Chairman*

John M. Budd
W. W. McCallum
J.C. James
*H. C. Murphy
Robert D. Stuart, Jr.
Robert S. Macfarlane

The above were Directors as of December 31, 1966.

** Died March 4, 1967.*

Officers

William J. Quinn, *President*

Eldon Martin, *Vice President and General Counsel*

Guy R. Glover, *Vice President—Traffic Department*

W. N. Ernzen, *Vice President and Comptroller*

W. K. Bush, *Vice President—Management Information Services*

I. C. Ethington, *Vice President—Operating Department*

L. N. Assell, *Secretary and Treasurer*

R. W. Smith, *Assistant Secretary and Assistant Treasurer*

John E. Adams
E. V. Fink
} *Fiscal Agents, 40 Wall St., New York, N. Y.*

Thomas A. Linehan
Martin H. Weber
} *Transfer Agents, 40 Wall St., New York, N.Y.*

Vice Presidents

Eldon Martin
Guy R. Glover
W. N. Ernzen
W. K. Bush
I. C. Ethington

Changes in Organization

On October 12, 1966, William J. Quinn was elected president and a director, succeeding Louis W. Menk, who resigned to accept the presidency of Northern Pacific Railway. Mr. Quinn had served as president of the Chicago, Milwaukee, St. Paul and Pacific Railroad since 1958, and previously had been vice president and general counsel of the Soo Line. Prior to entering the railroad industry, Mr. Quinn was in private law practice, and an assistant U.S. district attorney for the District of Minnesota.

The resignation of R. Douglas Stuart was reluctantly accepted by the board of directors March 1, 1966. Mr. Stuart, who elected to retire, had been a director since February 20, 1934, and his wise counsel contributed greatly to the success of the Company over a 32-year period. Mr. Stuart was succeeded by his son, Robert D. Stuart, Jr., president of Quaker Oats Company.

Directors Elected:

Robert W. Downing
Eldon Martin
William J. Quinn
Robert D. Stuart, Jr.

Officers Elected:

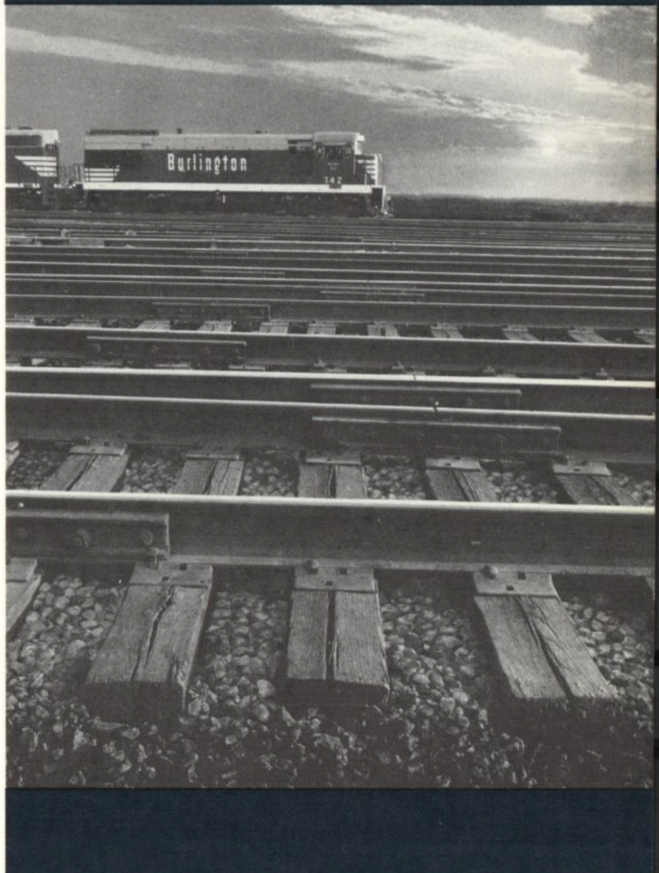
William J. Quinn	*President*
W. K. Bush	*Vice President—Management Information Services*

Officers Appointed:

W. R. Allen	*Assistant to President*
E. J. Brown	*Assistant Vice President—Operations*
G. F. Defiel	*Director, Department of Industry and Agriculture*
F. E. Deines	*Assistant Vice President—Sales*
J. R. Grimes	*Regional Sales Manager*
S. S. Hankis	*Assistant Vice President—Traffic, San Francisco, Cal.*
D. R. Lamb	*Assistant Comptroller—Costs*
C. E. Larsen	*Assistant Vice President—Marketing*
W. L. Malone	*Asst. General Manager—Freight Sales, Central Region*
J. D. Rezner	*General Manager—Freight Sales, Central Region*
A. M. Rung	*Director of Public Relations & Advertising*
D. V. Sartore	*Chief Engineer*
H. V. Schiltz	*Director of Purchases & Materials*
P. L. Smithburg	*Assistant Vice President—Staff*

Cover Photo

Solid, rock-ballasted roadbed, heavy steel rail, powerful freight diesels. The quintessence of modern railroading. All are in this year's cover photo. Lest any one feel he is gazing at an empty freight yard, we offer this note of assurance: all the cars are rolling over the railroad, earning revenues. As all good freight cars should be.



Burlington
Route